Adapting to the Recent Trends

By **Ty Sagalow,** Chief Insurance Officer, Lemonade Inc.

In a fast-changing world obsessed with innovation, most industries can rightfully boast of developments that have transformed their way of working. Insurance, however, hasn't seen real innovation in its underlying business models in over one hundred years. This makes legacy insurance companies susceptible to the kind of disruption that reinvented encyclopedias, taxis and the music industry.

I have built my entire career on innovation in insurance. For decades, I scrutinized major trends that had the potential to profoundly impact the economy, and analyzed the associated risks. The Internet was one such example of a major trend-turned-invention that had and continues to have an enormous impact on our global economy. Fifteen years ago this gave birth to what is now called 'cyber insurance'. Inventing cyber insurance not only answered the demands of the developing tech-based economy, but also played a vital role in providing private sector incentives to foster increased network security.

The sharing economy and social media networks are just some of the innovations with unwavering impact on our economic infrastructure. These movements have led to permanent changes in the very architecture of a growing number of rooted industries. Yet, in contrast to many other major trade spheres, years have gone by without any real disruption to the insurance business, and its deeply entrenched foundations have not yielded to accommodate these latest social and technological transformations. Granted, there have been cursory steps. However, this is a far cry from the industry-shaking overhaul which would be required to reconstruct the insurance industry at the level we've seen in other primary spheres.

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Certainly, my fellow insurance executives are aware of these trends, but they have not figured out how to adapt to them. In fact, when you take a deep look at the characteristics of the sharing economy and the advantages of social media, you're ironically looking at the very essence of what insurance used to be - people covering for one another on a communal level. In the 17th century, individual ship captains in Europe insured one another and collected from pooled funds in case of disaster while exploring the New World. The marine underwriting back then was strikingly similar to the sharing economy of today, as peers worked together with limited resources to guarantee each other's safety and wellbeing. Years later, Benjamin Franklin developed the community-based insurance company, "Philadelphia Contributionship," planting the first seeds of insurance in the United States.

Looking back at history can point us in the right direction. The insurance industry has since changed beyond

recognition, becoming centralized institutions, disconnected from its origin of community members helping each other in times of need. Despite my hopes for the industry to innovate and adapt itself to the ever-evolving tech-based economic environment, I have concluded that true disruptive innovation is almost impossible from within. Only a company born from technology with the principle goal of implementing lessons learned from the shared economy can provide a credible solution to the insurance impasse. The very underpinnings of the industry must be fundamentally restructured to bring insurance back to resembling what it once was.

legacy insurance today. No longer would insurance be a zero-sum game, wherein every dollar a policyholder is deprived of in a claim is a dollar in the pocket of the corporate insurer.

Real leadership in any industry requires adjusting your product to the current needs of the economy. Once upon a time, we evolved with the advent of the Internet. Now we must evolve again, to an even greater degree – and this cannot happen from within. Of course, to be successful, peer-to-peer insurance must accept and even embrace our regulatory environment working with insurance regulators as partners and not opponents. Further, peer-to-peer insurance companies have

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Peer-to-peer insurance provides the solution. The ideal insurance entity would be an insurance carrier, which in accordance with the concept of peer-to-peer, would act only as an organizer or intermediary - stepping back, not capitalizing on shareholders' claims or premiums. This would reflect the very nature of the sharing economy, and could not be further away from the conflicted, mistrusted state of

an obligation to be financially strong, well rated and properly reinsured (by third party reinsurers of the substantial ratings) in order to meet their financial obligations to their policyholders.

In a recent and quite telling international survey of insurance executives conducted by KPMG, 74 percent of respondents admitted that their companies lacked the internal culture and core skills needed to drive true disruptive innovation. In other words, legacy insurance companies are fully aware that while rewrites of existing products and services may have seemingly brought products "up to market," this type of incremental innovation ultimately left the carriers dangerously behind in responding to the real needs of their customers. It was this realization that led us to the idea that an altogether new company structured from the ground up was essential for any change. This company would focus on bringing insurance back to its historical origins of community, combined with 21st century cutting edge technology in an encompassing social networked society.

Such a company would become the model for 'putting customers first,' employed not just as a slogan – but as a business model, taking insurance (perceived broadly as a necessary evil) and turning it into a social good by putting the community back into the focal point, where it always belonged. By doing so, insurance can return to its original promise to be beneficial to civil society as a safety net when things go wrong.

Looking at what has changed in our economic landscape, and incorporating the sharing economy that has proven wildly successful in other industries into the insurance industry, will bring us back to our core values. It is not, of course, without risk. No great turn in society ever is. Nevertheless, I believe that the biggest risk the insurance industry can take right now is to not take any risks at all. IO